



TOWN OF CONCORD,
MASSACHUSETTS

**Town Manager's
Proposed Budget
FY2007**

For the Fiscal Year
July 1, 2006 - June 30, 2007



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2/8/2006

GOVERNMENT FINANCE OFFICERS ASSOCIATION

DISTINGUISHED BUDGET PRESENTATION AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the Town of Concord, Massachusetts for its annual budget for the fiscal year beginning July 1, 2005. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Concord
Massachusetts**

For the Fiscal Year Beginning

July 1, 2005

President

Executive Director

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Section I

Letter of Transmittal

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OLD NORTH BRIDGE

TOWN OF CONCORD

TOWN MANAGER'S OFFICE
22 MONUMENT SQUARE - P.O. BOX 535
CONCORD, MASSACHUSETTS 01742

TELEPHONE (978) 318-3000
FAX (978) 318-3002

CHRISTOPHER WHELAN, TOWN MANAGER

February 2, 2006

The Honorable Board of Selectmen,

I herewith submit for your review the Town Manager's Proposed Budget for Fiscal Year 2007 (July 1, 2006 - June 30, 2007, FY2007), in accordance with the requirements of the Town Charter. This budget contains my recommendations for appropriation amounts for the various Town departments as they appear in Article 9 of the 2006 Annual Town Meeting Warrant. This budget document also provides background information regarding revenue and expenditure trends as well as an explanation of my recommendations.

Budget Format

You may have noticed some changes to the budget presentation beginning with last year's Town Manager's Proposed Budget. The changes were made to incorporate some "best practices" for municipal budgeting as set forth by the Government Finance Officers Association (GFOA) of the United States and Canada. These best practices include twenty-seven criteria covering four general categories:

- the budget as a policy document;
- the budget as a financial plan;
- the budget as an operations guide; and,
- the budget as a communications device.

Accordingly, the format for this budget book has been slightly altered to integrate information specified by the GFOA. With these changes, greater emphasis is being placed on providing to the citizens a document that more effectively communicates the important issues facing the town and presents information about how the budget addresses these issues. One of the changes is an attempt to begin the process of providing performance information about each division and program. This is a multi-year process. Ultimately, the goal is to link Town objectives and performance information to the budget. It is important to understand, however, that this FY2007 budget represents only the first steps in a long-term process.

As a result of the changes that were made, the Town Manager's Proposed Budget for Fiscal Year 2006 (July 1, 2005 - June 30, 2006) earned the GFOA's Distinguished Budget Presentation Award this past year.

Budget Summary

I am presenting to you a recommended Town Government Budget that conforms to the Finance Committee Guidelines for town and school operations established in November of 2005. The total General Fund spending plan is \$66,276,378, an increase of 5.8%. This total includes:

- the proposed budget for the operation of the Town departments and accounts under the direction of the Town Manager, referred to in this document as "Town Government Budget", and presented for Town Meeting appropriation under Article 8 of the Warrant for the 2006 Annual Town Meeting;
- the proposed budget for the Concord Public Schools (CPS, K-8), which is the responsibility of the Superintendent of Schools (Dr. Brenda Finn) under the direction of the CPS School Committee, presented for Town Meeting appropriation under Article 9 of the Warrant;
- the proposed assessment for Concord's share of the Concord-Carlisle Regional School District (CCRSD) budget, which also is the responsibility of the Superintendent of Schools under the direction of the CCRSD Regional School Committee, presented for Town Meeting appropriation under Article 10, Item #1 of the Warrant;
- the proposed assessment for Concord's share of the Minuteman Vocational Technical High School (MMVT) budget which is the responsibility of the MMVT Superintendent under the direction of the Minuteman Regional School Committee, presented for Town meeting appropriation under Article 10, Item #2 of the Warrant; and,
- certain accounts that are not subject to Town Meeting vote but which must still be provided for within the FY2007 financial plan, included in this document in Section V (Items 101-103).

While the education budgets are not under the Town Manager's jurisdiction, summary pages for the three school accounts are included in this document in order to present a comprehensive total Town budget to the citizens of Concord and because it is the responsibility of the Town Manager to provide an estimate of the revenues available and required in total to support these component parts of the Town budget. The schools are not separate taxing entities. Summary information on the Education component of the FY2007 Proposed General Fund Budget is found in Section VI of this document (Items 104-106). The full school budget documents may be obtained from their respective superintendents.

SUMMARY OF THE PROPOSED FY2007 GENERAL FUND SPENDING PLAN
Finance Committee Guidelines and Estimates as of November 2005

	FY2007 Proposed	Percent Change from FY2006
Town Government Operations <i>Items 1-43 in this Document</i>	\$ 15,648,414	5.5%
Concord Public Schools (K-8) <i>Item 104 in this Document</i>	\$ 25,460,285	4.8%
Concord-Carlisle High Regional School <i>Operating Assessment</i>	\$ 11,858,857	9.6%
<i>Debt Assessment</i> <i>Item 105 in this Document</i>	\$ 477,889	26.4%
Minuteman Vocational Technical H.S. <i>Estimated Assessment</i> <i>Item 106 in this Document</i>	\$ 475,000	10.1%
Joint Accounts, Town and CPS <i>Items 44-48 in this Document</i>	\$ 11,337,933	6.0%
Accounts Not Appropriated by Town Meeting <i>Items 101-103 in this Document</i>	\$ 1,018,000	(13.3)%
GRAND TOTAL	\$ 66,276,378	+ 5.8%

The Guidelines of the Finance Committee were based upon resource estimates for FY2007 made last September. In total, the spending plan shown above is \$1,060,000 above what was then projected could be financed within the levy limit. The Finance Committee also issued a guideline at the levy limit. These allocations for each of the three major spending units are set forth as follows:

	Town Government Operations	CPS	CCRS Operating Assessment
At the Levy Limit Estimate	\$14,831,000	\$24,285,000	\$10,817,878
\$\$ Increase over FY2006	\$ 484,827	\$ 793,354	\$ 695,497
% Increase over FY2006	3.3%	3.3%	6.4%
Total Override			
Add Subject to Override	\$ 332,587	\$ 381,931	\$ 345,482 = \$1,060,000
Budget at Override Guideline	\$15,648,414	\$25,460,285	\$ 11,858,857
\$\$ Increase over FY2006	\$ 817,414	\$ 1,175,285	\$ 1,040,979
% Increase over FY2006	5.5%	4.8%	9.6%

Tax Impact

At the levy limit, the tax increase is projected to be 4.64%. While the "Proposition 2 ½" limit permits a 2.5% increase each year in the prior levy limit, this projection for FY2007 also incorporates the use of unused levy limit capacity from FY2006 (\$893,012), and the increased debt service cost projected for debt-financed projects already approved as exclusions from the levy limit by the previous votes of the town electorate (an added \$261,279 for FY2007).

The Override Guideline, an additional \$1,060,000 tax levy, represents a further 2.11% tax increase. Thus, the tax increase to finance this FY2007 proposed General Fund Spending Plan is currently estimated at 6.75%. The current year tax bill on a single family home assessed at the median value of \$712,100 is \$7,478. The FY2007 tax increase projected at the levy limit on this median value is therefore \$347. If an override vote (or votes) at the Finance Committee's Guidelines were approved, the tax increase at the median would be an additional \$158 (refer to the table in Section III - Budget Summary, Page III-4).

The resource projections on which the November Guidelines were based are subject to further review and change prior to the Town Meeting. There is some evidence that state aid may be increased. The Governor's budget proposals released January 25th contained recommendations that, if enacted, would produce additional state aid of about \$250,000 for Concord, above the estimate made at the start of our FY2007 budget planning last September. There is also still some hope that the cost of snow removal this winter will be within the \$405,000 budget. Short-term interest rates have been pushed higher by the Federal Reserve Bank decisions. While this is painful for our short-term construction financing needs for ongoing capital projects, it also has increased our short-term cash management results beyond current year expectations and higher short-term rates may continue through much of the next fiscal year, or at least will not exhaust the additional \$158,000 for winter storm costs that is built into our present plan. These and other changes in revenue and costs will need to be tallied before final decisions are made about FY2007 budgets and what override questions, if any, might be placed before the voters following the Annual Town Meeting

Budget Highlights

The process of putting together the FY2007 proposed budget has been challenging, principally as a result of three major factors:

- First, state aid, which was cut in previous years, has not rebounded to its earlier levels. State aid is projected to provide just 5.5 cents of every General Fund dollar. Just a few years ago, it was nearly 10% of the budget financing total. Even assuming that the Governor's FY2007 proposals are adopted, Concord's state assistance would be 10% less in actual dollars than it was five years ago. With no other major source of revenue, the General Fund's

reliance upon the property tax will reach a new high; 86 cents of every FY2007 General Fund dollar is projected to come from the property tax.

- Second, employee health insurance costs continue to be one of the fastest growing components of our budget. The Town pays on average about 54% of employee group health insurance costs and 50% of retiree costs. This budget item has doubled over the past five years despite the fact that Concord has been in the forefront of municipal collaborative efforts to restrain costs and wring out unneeded overhead expense through our leadership of the 16 towns and regional school districts now in the Minuteman Nashoba Health group. The FY2007 Group Insurance budget is proposed to be increased by \$230,000.
- Finally, energy prices have increased enormously in the past year. In FY2004 (the year ending June 30, 2004), we paid an average gasoline price of \$1.47 per gallon. Last year, our average price was \$1.65, and through the first half of this year it is \$2.19. While we are seeking to conserve fuel, we are also budgeting for a \$2.40 average price for next year. The diesel fuel price is up similarly, with a first half average price of \$2.33 vs. \$1.89 paid last year. The Town departments used about 120,000 gallons of gas and diesel last year, about 70,000 gallons paid from the General Fund budget. While consumption is down 15%, the dollar expense is up almost 20%. For the FY2007 budget, this line item has been increased more than \$60,000 for all accounts.

Natural gas prices have similarly soared. The price we are paying at the mid-point of FY2006 is about 50% higher than the average FY2004 price. All of our buildings use natural gas for heating; and the Library, the Harvey Wheeler building, and the Police/Fire Station have all undergone recent renovations, increasing their usable space. For FY2007, this line item has been increased more than \$50,000 for all accounts.

Electricity, water, and sewer rates are managed by the Town, and while we do not face price shocks from these utilities, usage and unit prices are increasing for every building. Overall, utility and fuel increases in this proposed budget to be paid by the General Fund appropriation amount to about \$150,000.

These difficulties may not be just short-term bumps. Health care costs have been rising significantly for the past five years and are expected to continue to rise at least 5% to 10% annually, a higher trend rate than for expected revenue growth. Approximately a quarter of the total group insurance expenditure is for retirees. New governmental accounting standards that will become effective for financial reporting as of June 30, 2008 will require municipalities to account for the unfunded portion of post-retirement health insurance benefits, in much the same way that the Town now accounts for pension

liabilities. Funding this liability as a current cost - accumulating the necessary assets during an employee's working years - will represent a significant new budget expense. This budget does not propose any "seed" funding, but it is likely that we will need to address the issue soon. The 2004 Annual Town Meeting approved the filing of a home rule petition that would create a trust fund and establish the necessary investment authority for the Treasurer. This legislation is still making its way through the General Court. Without proper investment authority, the accumulation of assets invested at money market rates to address future long-term liabilities would be a money-losing and pointless proposition.

By state statute and Town by-law, we are required to present a balanced budget to Town Meeting. An increase in expenditures in one area must be matched with either a corresponding decrease in expenditures in another area or a corresponding increase in revenues. Although Proposition 2 ½ overrides have played an important role in helping the Town maintain the services provided to the public, we have, nevertheless, had to constrain funding for many operating and capital accounts for which there is a continuing need. In fact, the Town's FY2004 operating budget actually was lower than the year earlier.

This budget document presents the Town Manager's proposals at the Finance Committee's Override Guideline. Of the \$817,414 in new resources provided to the Town Government Operating Budget by the Guideline, my focus has been on a limited set of objectives:

- to continue to provide a competitive salary structure with a meaningful merit pay component that is designed to retain the Town's highly qualified staff; \$550,000 has been allocated to this objective in Item 41 - Salary Reserve;
- to maintain a sufficient level of capital expenditures financed from current resources (referred to in this document as "Capital Outlay"); \$1,271,000 has been allocated to this objective in a variety of departmental accounts throughout the budget; and,
- to continue to strengthen the assessing operations; the FY2007 budget includes an additional \$100,000 in the Assessors Division budget (Item 9D); the major part of this funding will be directed to accelerating the cycle of property inspection from the nine-year cycle presently required by the state to a three- to five-year cycle.

Each of these objectives is discussed in further detail below.

Staff Compensation

In FY2006, the Town's non-union employees received a wage adjustment of 2½ %, together with a performance increase averaging 3% (about two-thirds of non-union staff is

eligible for a performance increase, the rest being at the top of their pay scale). The FY2005 wage adjustment for this group of staff members was 2%, and performance increases averaged 2%.

The proposed FY2007 budget would provide, for non-union employees, a structure movement of 2 ¾ % on the pay scales effective July 1, 2006, and a performance increase averaging 2 ¾ % based on merit and written performance evaluation at each employee's review date. This is an important component of my budget proposal, as we strive to maintain the highly professional, experienced, and well-trained staff the Town has recruited over the years. The Salary Reserve line item of \$550,000 also includes the cost of Police, Fire, and Dispatcher collective bargaining agreements. Contract agreements are in place with the Concord Police Association and the Concord Firefighters Association through June 30, 2008, and with the Teamsters Local #25 (Public Safety Dispatchers) through June 30, 2006.

Capital Outlay

Another area of the budget that requires constant vigilance in the budget process is the capital outlay group of accounts. This includes a wide variety of purposes, from police and public works vehicles and equipment to small-scale but continuous repair projects on all of the Town department buildings. These are the components of our continuous investment for which we cannot issue debt under the law or should not do so as a matter of sound fiscal policy. Rather, we allocate a portion of current revenues in competition and in balance with all of our other operational needs. Funding for sidewalk repairs, drainage improvements and culvert repair (Items 26 and 27) are illustrative of the critical nature of these continuing annual commitments.

In total, I am proposing \$1,271,000 for FY2007 capital outlays, representing 8% of the \$15,648,414 Town government operations budget and an increase of \$85,000 over the current year.

Assessing

In preparation of the 2008 triennial revaluation, I am proposing \$100,000 be used for consulting and contract services to assist the assessing staff with the data collection and analysis needed to obtain the state's certification that all Concord real properties are listed at their full and fair market value. Major work on this project begins on January 1, 2007, halfway through the FY2007 fiscal year. With these additional resources, our objective will be to place the Town on a continuing property re-inspection cycle ideally of three-year intervals. That is, each property will be visited no less frequently than once every three years. The state's required standard is nine years. Beyond FY2007, our expectation is that a combination of Town staff and contract assistance - with the outside assistance closely coordinated and managed by the Town Appraiser - can accomplish a

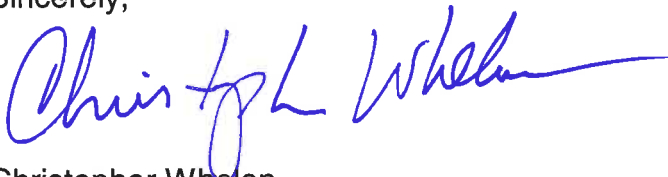
three-year inspection cycle with an annual supplement to the existing (FY2006) budget in the range of \$60,000 to \$75,000.

Conclusion and Acknowledgments

The Guideline Budget of \$15,648,414 for the Town Government Operating Budget provides for all critical Town operations and will allow the Town's professional staff to continue to offer the highest quality services. However, the guideline presumes voters will support an override in the amount of \$332,587 as has been set forth above. I have not yet identified the specific contingent appropriations required to meet the Finance Committee's Levy Limit Guideline of \$15,315,827. I will be working with the Finance Director, the department heads, and the Board of Selectmen in the coming weeks to put together a balanced and sound set of contingent appropriation recommendations. The Guidelines set forth by the Finance Committee in November manifest its recognition of the excellent efforts the Town staff has made to use resources wisely and to maximize efficiency. We are committed to continue on this path, planning thoroughly for the future of the town while spending carefully in the present.

I would like to express my sincere appreciation to all of the Town's board and committee members, as well as the Town's staff, who contributed to the development of this budget document. Special thanks are due to Finance Director Anthony Logalbo. Thanks also go to Acting Budget and Purchasing Administrator Jon Harris, Special Projects Assistant David Berry, and Assistant Town Manager Douglas Meagher, who dedicated many hours to bringing this budget to completion.

Sincerely,



Christopher Whelan
Town Manager

cc: Finance Committee Members
Committee Chairpersons
Town Department Heads